

OTTUMWA WATER WORKS
OTTUMWA, IOWA

INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2013

OTTUMWA WATER WORKS

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OTTUMWA WATER WORKS

OFFICIALS
DECEMBER 31, 2013

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Pete Rich	Water Works Trustee	July, 2014
Clive Parcell	Water Works Trustee	July, 2015
Barb Allison	Water Works Trustee	July, 2016
Xavier Wilson	Water Works Trustee	July, 2018
Barbara Sasseen	Water Works Trustee	July, 2019
Michael Heffernan	General Manager	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Ottumwa Water Works
Ottumwa, Iowa

We have audited the accompanying financial statements of Ottumwa Water Works, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Ottumwa Water Work's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ottumwa Water Works as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedule of funding progress for the retiree health plan on pages 4 through 6 and 19 through 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ottumwa Water Work's basic financial statements. The detail schedule of revenues and expenses are presented for purposes of additional analysis and is not a required part of the basic financial statements

The detail schedule of revenues and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the detail schedule of revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
August 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ottumwa Water Works provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the calendar year ended December 31, 2013. We encourage readers to consider this information in conjunction with the Utility's financial statements which follow.

FINANCIAL HIGHLIGHTS

The Utility's operating revenues increased by approximately 6.1% or \$378,823 from 2012 to 2013. Increases in revenue from the sale of water accounted for the majority of the increase.

The Utility's operating expenses increased approximately 7.5% or \$408,718 from 2012 to 2013. This increase included an increase in production and distribution expenses.

The Utility's net position increased approximately 2.1% or \$501,919 from 2012 to 2013.

USING THIS ANNUAL REPORT

The Ottumwa Water Works is a publicly owned utility and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Ottumwa Water Work's basic financial statements. The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Statement of Net Position presents information about the Utility's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the current year's activities.

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the Utility's revenues and expenses.

FINANCIAL ANALYSIS OF THE UTILITY

Statement of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Utility's financial position. The Utility's net position as of December 31, 2013 total \$24,993,103. This compares to \$24,491,184 as of December 31, 2012. A summary of the Utility's net assets as of December 31, 2013 and 2012 are presented below.

NET POSITION

	December 31,	
	<u>2013</u>	<u>2012</u>
Current assets	\$ 4,649,550	\$ 5,235,377
Non-current assets	<u>33,038,029</u>	<u>31,651,522</u>
Total assets	<u>37,687,579</u>	<u>36,886,899</u>
Current liabilities	3,836,257	3,751,295
Long-term liabilities	<u>8,858,219</u>	<u>8,644,420</u>
Total liabilities	<u>12,694,476</u>	<u>12,395,715</u>
Unrestricted	2,692,911	4,829,172
Net investment in capital assets	<u>22,300,192</u>	<u>19,662,012</u>
Total net position	\$ <u>24,993,103</u>	\$ <u>24,491,184</u>

Statements of Revenues, Expenses and Changes in Net Position

Operating revenues are received from the sale of water to Ottumwa residents, sale of hydro electric power, and other miscellaneous income. Non-operating revenues and expenses include interest income and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended December 31, 2013 and 2012 is presented below:

CHANGES IN NET POSITION

	Year Ended December 31,	
	<u>2013</u>	<u>2012</u>
Operating revenue:		
Sale of water	\$ 5,802,398	\$ 5,365,416
Sale of electricity	277,846	435,237
Miscellaneous income	<u>538,599</u>	<u>439,367</u>
Total operating revenue	<u>6,618,843</u>	<u>6,240,020</u>
Operating expenses:		
Production	1,603,973	1,527,070
Distribution	1,862,818	1,603,222
Hydro	204,780	204,178
Financial services	400,462	381,275
Administration	140,217	156,780
General plant	477,061	438,805
Depreciation and amortization	<u>1,183,033</u>	<u>1,152,296</u>
Total operating expenses	<u>5,872,344</u>	<u>5,463,626</u>
Operating income	746,499	776,394
Non-operating revenue (expense):		
Interest income	47,203	64,505
Interest expense	<u>(291,783)</u>	<u>(289,041)</u>
Total non-operating revenue (expense)	<u>(244,580)</u>	<u>(224,536)</u>
Change in net position	501,919	551,858
Net position – Beginning of year	<u>24,491,184</u>	<u>23,939,326</u>
Net position – End of year	\$ <u>24,993,103</u>	\$ <u>24,491,184</u>

The Statement of Revenues, Expenses and Changes in Net Position reflects an increase at the end of the year in the net assets.

During calendar year 2013, operating revenues increased 6.1%, or \$378,823. Water revenue increased \$436,982 due to a rate increase on July 1, 2013 and higher sales volume. Electricity revenue decreased \$157,391 or 36.2% due to river levels affecting when electricity was able to be produced. Increases in production, distribution, and financial services expenses, are offset by decreases in hydro, administration and general plant expenses.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing activities and investing activities. Cash provided by operating activities include the sale of water, electricity and other receipts reduced for payments to suppliers and employees. Cash used in capital and related financing activities include the purchase of capital assets. Cash flows used in investing activities include interest income and the purchase and redemption of certificates of deposit. Cash flows provided by financing activities include proceeds and payments related to the Utility's debt.

Budget

The Utility submits a budget to the City of Ottumwa on an annual basis. Receipts for the year exceeded the amounts budgeted by \$51,590 and disbursements were less than amounts budgeted by \$676,701. The increase in receipts was a result of charges for services in excess of the amount budgeted due to a rate increase and increased volume.

CAPITAL ASSETS

At December 31, 2013, the Utility had \$31,694,257, invested in capital assets, net of accumulated depreciation of \$23,198,695. Depreciation and amortization charges totaled \$1,178,033 for the year. More detailed information about the Utility's capital assets is presented in the Notes to Financial Statements.

LONG-TERM DEBT

At December 31, 2013, the Utility had \$9,394,065 in total long-term debt outstanding. During the year ended December 31, 2013, the Utility issued a total of \$829,097 of long-term debt to finance Utility construction projects. Additional information regarding the Utility's long-term debt is included in the Notes to Financial Statements.

ECONOMIC FACTORS

During 2013, Ottumwa Waters Works' financial position increased. However, the current condition of the economy in the State continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

The Utilities distribution system requires constant maintenance and upkeep.

The continued inflationary increases in health care, chemicals, and energy costs.

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current year will be much like the last and we will maintain a close watch over resources to maintain our ability to react to unknown issues.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ottumwa Water Works, P.O. Box 20, Ottumwa, Iowa, 52501.

OTTUMWA WATER WORKS
STATEMENT OF NET POSITION
DECEMBER 31, 2013

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 897,033
Certificates of deposit	2,000,000
Accounts receivable, net of allowance for uncollectible accounts of \$181,843	1,531,940
Inventory	189,930
Accrued interest receivable	1,421
Prepaid expenses	29,226
Total current assets	<u>4,649,550</u>

NON-CURRENT ASSETS:

Capital Assets:	
Buildings	6,684,929
Water distribution system	43,359,661
Equipment and vehicles	1,165,247
Office equipment	252,029
Total	51,461,866
Less accumulated depreciation	23,198,695
Depreciated value of capital assets	28,263,171
Land	698,577
Construction in progress	2,732,509
Total capital assets	<u>31,694,257</u>
Other Assets:	
Deferred charges - Debt issue costs	103,772
Certificates of deposit	1,240,000
Total other assets	<u>1,343,772</u>
TOTAL ASSETS	<u>37,687,579</u>

CURRENT LIABILITIES:

Accounts payable	943,115
Accrued payroll and related expenses	50,069
Accrued interest	43,028
Sales tax	18,944
Sick leave	224,972
Accrued vacation	82,677
Self insurance	32,020
Accrued disability and life insurance	92,600
Customer deposits	259,503
Current maturities of long-term liabilities	618,489
Accrued sewer and refuse collections	1,470,840
Total current liabilities	<u>3,836,257</u>

NON-CURRENT LIABILITIES:

Revenue bonds	7,853,919
Contract payable	921,657
Net OPEB liability	82,643
Total noncurrent liabilities	<u>8,858,219</u>
TOTAL LIABILITIES	<u>12,694,476</u>

NET POSITION:

Net investment in capital assets	22,300,192
Unrestricted	2,692,911
TOTAL NET POSITION	<u>\$ 24,993,103</u>

See Accompanying Notes to the Financial Statements

OTTUMWA WATER WORKS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUE:

Sale of water	\$ 5,802,398
Sale of electricity	277,846
Miscellaneous income	<u>538,599</u>
Total operating revenue	<u>6,618,843</u>

OPERATING EXPENSES:

Production	1,603,973
Distribution	1,862,818
Hydro	204,780
Financial services	400,462
Administration	140,217
General plant	477,061
Depreciation and amortization	<u>1,183,033</u>
Total operating expenses	<u>5,872,344</u>

OPERATING INCOME 746,499

NONOPERATING REVENUE (EXPENSE):

Interest income	47,203
Interest expense	<u>(291,783)</u>
Net nonoperating revenue (expense)	<u>(244,580)</u>

CHANGE IN NET POSITION 501,919

NET POSITION - BEGINNING OF YEAR 24,491,184

NET POSITION - END OF YEAR \$ 24,993,103

OTTUMWA WATER WORKS

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 6,208,439
Cash received from other operating receipts	538,599
Cash paid to suppliers for goods and services	(3,374,022)
Cash paid to employees for services	(1,521,354)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,851,662</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(4,069,540)
Proceeds from long-term debt	829,097
Principal payments on long-term debt	(575,770)
Payment of interest on long-term debt	(290,091)
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(4,106,304)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	47,661
Purchase of certificates of deposit	(500,000)
Proceeds from certificates of deposit	2,000,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,547,661</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (706,981)

CASH AND CASH EQUIVALENTS - Beginning of year 1,604,014CASH AND CASH EQUIVALENTS - End of year \$ 897,033RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 746,499
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	1,183,033
Increase in allowance account	16,500
Change in operating assets and liabilities:	
Increase in accounts receivable	(116,077)
Increase in inventory	(19,648)
Increase in prepaid expenses	(2,387)
Decrease in accounts payable	(188,499)
Decrease in accrued payroll and related expenses	(1,258)
Decrease in sales tax	(280)
Increase in sick leave	28,675
Increase in accrued vacation	9,765
Decrease in self insurance	(45,417)
Increase in accrued disability and life insurance	-
Increase in customer deposits	11,601
Increase in accrued sewer and refuse collections	216,451
Increase in net OPEB obligation	12,704
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u>1,851,662</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest	\$ <u>290,091</u>
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OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ottumwa Water Works is organized as a municipal water utility which was established in 1910. They are overseen by a five member board appointed by the City Council and Mayor of the City of Ottumwa. The Utility's operating budget is subject to the approval of the City Council. The Ottumwa Water Works is considered by the City of Ottumwa to be substantially autonomous. The Ottumwa Water Works is funded entirely by water user charges collected from users of the Ottumwa Water Works' system.

The financial statements of the Ottumwa Water Works are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Ottumwa Water Works has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. Ottumwa Water Works has no component units which meet the Governmental Accounting Standards Board criteria.

Ottumwa Water Works is not presented as a Component Unit in the City of Ottumwa, Iowa's financial statements. The Utility is a legally separate entity from the City, but is financially accountable to the City. The Utility is governed by a five-member Board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Basis of Presentation

The accounts of the Ottumwa Water Works are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The Statement of Net Position displays the utility's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Unrestricted net position consists of net position not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the utility's policy to use restricted net position first.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Ottumwa Water Works applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements; Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Ottumwa Water Works distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash, Investments and Cash Equivalents – The Ottumwa Water Works considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at December 31, 2013 include certificates of deposit of \$3,240,000.

Accounts Receivable – Ottumwa Water Works grants credit to customers, substantially all of whom are located in Ottumwa, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. The Ottumwa Water Works uses the reserve method of accounting for uncollectible accounts. At December 31, 2013, a reserve of \$181,843 is provided to allow for uncollectible customer accounts.

Material and Chemicals Inventory – Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation/amortization of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation/amortization of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year.

<u>Asset Class</u>	<u>Amount</u>
Buildings	\$ 500
Water distribution system	500
Equipment and vehicles	500
Office equipment	500
Intangible assets	500

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

Capital assets of the Utility are depreciated/amortized using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-25
Water distribution system	40-50
Equipment and vehicles	5-7
Office equipment	5-7
Intangible assets	5-7

Interest is capitalized on qualified assets acquired with certain debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the year ended December 31, 2013.

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility's liability for accrued vacation has been computed based on rates of pay in effect at December 31, 2013.

Use of Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting – The Budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2013, disbursements did not exceed the amounts budgeted.

NOTE 2 – CASH AND INVESTMENTS

The Utility's deposits in banks at December 31, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

NOTE 3 – CAPITAL ASSETS

A summary of capital assets at December 31, 2013 is as follows:

	<u>Balance</u> <u>Beginning of Year</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>End of Year</u>
Capital assets, not being depreciated/amortized:				
Land	\$ 618,577	\$ 80,000	\$ -	\$ 698,577
Construction in progress	<u>663,643</u>	<u>3,273,644</u>	<u>1,204,778</u>	<u>2,732,509</u>
Total capital assets not being depreciated/amortized	<u>1,282,220</u>	<u>3,353,644</u>	<u>1,204,778</u>	<u>3,431,086</u>
Capital assets, being depreciated/amortized:				
Buildings	6,171,929	513,000	-	6,684,929
Water distribution system	42,058,463	1,301,198	-	43,359,661
Equipment and vehicles	1,073,832	91,415	-	1,165,247
Office equipment	<u>236,968</u>	<u>15,061</u>	<u>-</u>	<u>252,029</u>
Total capital assets, being depreciated/amortized	<u>49,541,192</u>	<u>1,920,674</u>	<u>-</u>	<u>51,461,866</u>
Less accumulated depreciation/amortization for:				
Buildings	2,721,325	196,189	-	2,917,514
Water distribution system	18,437,864	930,619	-	19,368,483
Equipment and vehicles	673,928	40,764	-	714,692
Office equipment	<u>187,545</u>	<u>10,461</u>	<u>-</u>	<u>198,006</u>
Total accumulated depreciation/amortization	<u>22,020,662</u>	<u>1,178,033</u>	<u>-</u>	<u>23,198,695</u>
Total capital assets being depreciated/amortized, net	<u>27,520,530</u>	<u>742,641</u>	<u>-</u>	<u>28,263,171</u>
Capital assets, net	\$ <u>28,802,750</u>	\$ <u>4,096,285</u>	\$ <u>1,204,778</u>	\$ <u>31,694,257</u>

NOTE 4 – PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.95% and 5.78% of their annual covered salary and the Utility is required to contribute 8.93% and 8.67% of annual covered payroll for the years ended June 30, 2013 and 2012, respectively. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended December 31, 2013, 2012 and 2011 were \$130,736, \$115,409, and \$101,850, respectively, equal to the required contributions for each year.

NOTE 5 – SELF INSURANCE PROGRAM

The Utility has a self-insurance program for hospitalization and medical coverage for its employees. The program is administered through a service agreement with Cottingham Butler. The Utility limits its losses through the use of stop-loss policies from reinsurers. Specific individual losses for claims are limited to \$40,000 a year. The Utility's aggregate annual loss limitation is based on a formula that considers, among other things, the total number of employees. For December 31, 2013, the Utility incurred \$496,745 in expense under the program.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

NOTE 5 – SELF INSURANCE PROGRAM (continued)

Amounts payable by Ottumwa Water Works at December 31, 2013 total \$32,020 which is for incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on estimates of the amounts necessary to pay prior-year and current-year claims. A liability has been established based on the requirements of Governmental Accounting Standards Board Statement Number 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Settlements have not exceeded the stop-loss coverage in any of the past three years. A reconciliation of changes in the aggregate liability for claims for the current year is as follows:

Unpaid claims as of December 31, 2012	\$ 77,437
Incurred claims (including claims incurred but not reported as of December 31, 2013):	
Provision for current-year events where the Utility has retained risk of loss	496,745
Payments:	
Claims attributable to current-year events where the Utility has retained risk of loss	<u>542,162</u>
Unpaid claims as of December 31, 2013	\$ <u>32,020</u>

NOTE 6 – OTHER EMPLOYEE BENEFITS

The Water Works employees accumulate sick leave and vacation hours for subsequent use. The liability for accrued vacation at December 31, 2013 is \$82,677. The Water Works has a policy of paying one-half of the unused accumulated sick leave upon retirement of any employee. The maximum number of days an employee can accumulate is 120. Upon the death of any employee, 100% of the accumulated sick leave is paid. One-half of unused sick leave totals \$224,972, and is reflected in the financial statements as a liability at December 31, 2013.

Effective November 1, 1989, the Ottumwa Water Works began a long-term disability plan. Once an employee has accumulated the maximum number of days of sick leave referred to in the preceding paragraph, they begin to accumulate long-term disability days. The days are accumulated at 50% of the normal sick leave accrual rate, and the maximum number of days to be accrued is 120. The compensation is computed at 60% of the employee's normal salary and is paid only after all normal sick leave benefits are exhausted.

The amount of the accrual reflected on the balance sheet at December 31, 2013 for the long-term disability benefit is \$88,600.

NOTE 7 – POST RETIREMENT BENEFITS

On July 22, 1992, the Ottumwa Water Works approved a policy to drop the group term life insurance coverage on existing retirees and instead pay a one-time death benefit equal to the term coverage in effect as of this date. The total death benefit payable as of December 31, 2013 was \$4,000 and covers four retirees. Only these four retirees are covered by this provision. Any other employees retiring on or after July 22, 1992 will not receive this benefit.

NOTE 8 – DESIGNATED ASSETS

The Ottumwa Water Works has designated assets comprised of demand deposits, passbook savings, and certificates of deposits that are to be used for a specific purpose. A summary of the designated assets is as follows:

Meter Deposit Fund – This fund is used to account for cash collected on customer deposits. The amount designated for the meter deposit fund as of December 31, 2013 is \$240,000.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

NOTE 9 – RELATED PARTY TRANSACTIONS

The Ottumwa Water Works provides billing and collection services to the City of Ottumwa for sewer and refuse services. The following is a summary of the balances due to the City at December 31, 2013:

Accrued sewer services charges	\$ 1,085,537
Accrued refuse collection fees	<u>385,303</u>
Total accrued sewer and refuse collections	\$ <u>1,470,840</u>

NOTE 10 – LONG-TERM LIABILITIES

A summary of the changes in long-term liabilities for the year ended December 31, 2013, is as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End Of Year	Due Within One Year
Revenue Bonds	\$ 8,068,762	\$ 829,097	\$ 501,600	\$ 8,396,259	\$ 542,340
Contract Payable	1,071,976	-	74,170	997,806	76,149
Net OPEB Liability	<u>69,939</u>	<u>12,704</u>	<u>-</u>	<u>82,643</u>	<u>-</u>
Total	\$ <u>9,210,677</u>	\$ <u>841,801</u>	\$ <u>575,770</u>	\$ <u>9,476,708</u>	\$ <u>618,489</u>

Contract Payable to City of Ottumwa, Iowa

During 2006, 2010 and 2012, the Ottumwa Water Works entered into agreements with the City of Ottumwa, Iowa, which are related to the City's sewer separation project. In the agreements, the Ottumwa Water Works agrees to reimburse the City for the cost of the project that relates to water main replacement. The City of Ottumwa, Iowa has paid for the entire cost of the project by issuing revenue bonds and the Water Works will pay the City of Ottumwa, Iowa for its portion of the project. Phase I requires twenty annual installments of \$35,785 starting June 1, 2008. Phase II requires eight annual installments of \$45,778 starting June 1, 2010. Phase III requires thirty annual installments of \$21,215. Interest rates vary from 2.00% to 3.25%.

Iowa Department of Natural Resources

On June 2, 2005, the Utility entered into agreements with the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$4,000,000 of water revenue bonds, with an interest rate of 3.0% per annum. The bonds also require the utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2013, the Utility paid interest of \$88,440 on this loan.

On December 28, 2006, the Utility entered into agreements with the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$4,800,000 of water revenue bonds, with an interest rate of 3.0% per annum. The bonds also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2013, the Utility paid interest of \$106,125 on this loan.

On March 31, 2011, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,400,000 of water revenue bonds, with an interest rate of 3.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2013, the Utility paid interest of \$21,915 on this loan.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 10 – LONG-TERM LIABILITIES (continued)

Iowa Department of Natural Resources (continued)

On September 7, 2011, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,666,000 of water revenue bonds, with an interest rate of 3.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384 and Section 384.24A of the Code of Iowa to pay the costs of constructing improvements and extensions to the water system. During the year ended December 31, 2013, the Utility paid interest of \$14,981 on this loan. During the year ended December 31, 2013, \$174,615 was drawn down on the loan.

Included in the loan is a provision for forgivable water revenue bonds. If certain conditions are met the bonds are 40% forgivable. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the water system. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the Utility will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The Utility received funds from the DNR upon request to reimburse the Utility for costs as incurred. At December 31, 2013, the Utility had not yet met the requirements for the loan to be forgiven.

On October 19, 2012, the Utility entered into agreements with the Iowa Department of Natural Resources and the Iowa Finance Authority for the issuance of \$1,250,000 of water revenue bonds, with an interest rate of 2.0% per annum. The loans also require the Utility to annually pay a .25% servicing fee on the outstanding principal balance. During the year ended December 31, 2013, \$654,482 was drawn down on the loan. During the year ended December 31, 2013, the Utility paid interest of \$6,365 on this loan. Included in the \$1,250,000 loan is a provision for forgivable water revenue bonds. If certain conditions are met the bonds are 20% forgivable. The bonds were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa and the American Recovery and Investment Act of 2009 (ARRA) for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the water system. If the requirements of ARRA, including, but not limited to, satisfaction of applicable timing requirements are not met and the loan is not forgiven, the Utility will pay interest at 3.0% per annum, an annual .25% servicing fee on the outstanding principal balance (including undisbursed loan proceeds) and an initiation fee of 1% of the authorized loan. The Utility received funds from the DNR upon request to reimburse the Utility for costs as incurred. At December 31, 2013, the Utility had not yet met the requirements for the loan to be forgiven.

At December 31, 2013, the Utility had drawn \$11,614,859 including initiation fees of \$140,288.

OTTUMWA WATER WORKS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

NOTE 10 – LONG-TERM LIABILITIES (continued)

Iowa Department of Natural Resources (continued)

Expected repayment schedules for all of the Utility's long-term debt are as follows:

Year Ended December 31	Fully Matured		City of Ottumwa		IDNR SRF		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 7,000	\$ 1,562	\$ 76,149	\$ 26,588	\$ 535,340	\$ 236,853	\$ 618,489	\$ 265,003
2015	-	-	78,184	24,554	551,686	220,882	629,870	245,436
2016	-	-	80,274	22,464	567,066	204,441	647,340	226,905
2017	-	-	82,422	20,315	584,482	187,516	666,904	207,831
2018	-	-	38,893	18,107	601,933	170,074	640,826	188,181
2019 to 2023	-	-	208,363	76,636	3,088,766	575,755	3,297,129	652,391
2024 to 2028	-	-	197,908	51,307	2,042,019	155,727	2,239,927	207,034
2029 to 2033	-	-	72,340	33,735	417,967	31,549	490,307	65,284
2034 to 2038	-	-	84,885	21,191	-	-	84,885	21,191
2039 to 2042	-	-	78,388	6,471	-	-	78,388	6,471
	<u>\$ 7,000</u>	<u>\$ 1,562</u>	<u>\$ 997,806</u>	<u>\$ 301,368</u>	<u>\$ 8,389,259</u>	<u>\$ 1,782,797</u>	<u>\$ 9,394,065</u>	<u>\$ 2,085,727</u>

The Utility has pledged future water customer revenues, net of specified operating expenses, to repay the various water revenue notes described below. These notes are payable solely from water customer net revenues and are payable through 2042. Annual principal and interest payments on these notes are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the notes is \$10,172,056 for the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$739,507 and \$1,929,532, respectively.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

During the year ended December 31, 2013, the Utility was in compliance with the revenue note provisions.

NOTE 11 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility assumes liability for any deductibles and claims in excess of coverage limitations.

NOTE 12 – MAJOR CUSTOMERS

Sales to two major customers accounted for greater than 10% of total sales for the year ended December 31, 2013. At December 31, 2013, amounts due from these customers were \$276,343.

OTTUMWA WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Prior to December 31, 2013, the Utility had signed various contracts for construction projects in conjunction with the City of Ottumwa, Iowa that are summarized below:

Total commitments	\$ 1,831,472
Amounts paid or accrued	<u>625,326</u>
Remaining commitments	\$ <u>1,206,146</u>

The remaining balance at December 31, 2013 will be paid as work on the projects progress.

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The Utility operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 3 active and 15 retired members in the plan. The current eligible group is frozen, there will be no new entrants to the plan.

The medical coverage is provided through a partially self funded plan administered by Cottingham Butter.

Funding Policy – The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The Utility's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utility's annual OPEB cost for the year ended December 31, 2013, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

Annual required contribution	\$ 44,599
Interest on net OPEB obligation	3,497
Adjustment to annual required contribution	<u>(1,953)</u>
Annual OPEB cost	46,143
Contributions made	<u>(33,439)</u>
Increase in net OPEB obligation	12,704
Net OPEB obligation beginning of year	<u>69,939</u>
Net OPEB obligation end of year	\$ <u>82,643</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2013.

For the year ended December 31, 2013, the Utility contributed \$33,439 to the medical plan.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>% of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2011	\$ 80,426	88.83%	\$ 52,304
2012	45,825	61.52	69,939
2013	46,143	72.47	82,643

OTTUMWA WATER WORKS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Funded Status and Funding Progress – As of January 1, 2012, the most recent actuarial valuation date for the period January 1, 2013 through December 31, 2013, the actuarial accrued liability was \$410,633 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$410,633. The covered payroll (annual payroll of active employees covered by the plan) was \$174,476 and the ratio of the UAAL to covered payroll was 2.35%. As of December 31, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 5% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 7.5%. The ultimate medical trend rate is 5.5%. The medical trend rate is reduced 0.5% each year until reaching the 5.5% ultimate trend rate. An inflation rate of 0% is assumed for purposes of this computation.

Mortality rates are from the 1983 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed using the alternate valuation method as prescribed in GASB 45.

The UAAL is being amortized as a level percentage over 25 years.

NOTE 15 – RECLASSIFICATIONS

Certain amounts for the year ended December 31, 2012 have been reclassified to conform with the December 31, 2013 presentation.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 26, 2014, the date the financial statements were available to be issued.

OTTUMWA WATER WORKS

BUDGETARY COMPARISON SCHEDULE OF
RECEIPTS, DISBURSEMENTS AND CHANGES IN
BALANCES - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2013

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget Original/Final	Final to Actual Cash Basis Variance
Receipts:					
Use of money and property	\$ 47,203	\$ -	\$ 47,203	\$ 55,000	\$ (7,797)
Charges for service	6,442,671	-	6,442,671	6,519,456	(76,785)
Miscellaneous	176,172	-	176,172	40,000	136,172
	<u>6,666,046</u>	<u>-</u>	<u>6,666,046</u>	<u>6,614,456</u>	<u>51,590</u>
Disbursements:					
Business-type activities	<u>6,164,127</u>	<u>3,462,277</u>	<u>9,626,404</u>	<u>10,303,105</u>	<u>676,701</u>
Excess (deficiency) of receipts over (under) disbursements	501,919	(3,462,277)	(2,960,358)	(3,688,649)	728,291
Other financing sources, net	<u>-</u>	<u>829,097</u>	<u>829,097</u>	<u>2,300,000</u>	<u>(1,470,903)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	501,919	(2,633,180)	(2,131,261)	(1,388,649)	(742,612)
Balance beginning of year	<u>24,491,184</u>	<u>-</u>	<u>24,491,184</u>	<u>4,731,137</u>	<u>19,760,047</u>
Balance end of year	\$ <u>24,993,103</u>	\$ <u>(2,633,180)</u>	\$ <u>22,359,923</u>	\$ <u>3,342,488</u>	\$ <u>19,017,435</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2013

The budgetary comparison is presented as Required Supplementary information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences.

In accordance with the Code of Iowa, the Utility annually adopts a budget on the modified accrual basis following required public notice and hearing. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of expenses known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government; debt service, capital projects and business-type activities. Although the budget document presents function expenses by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

OTTUMWA WATER WORKS

SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

<u>Year Ended</u> <u>December 31,</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b - a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a) / c)</u>
2009	January 1, 2009	\$ -	\$ 1,360,045	\$ 1,360,045	0 %	\$ 280,849	4.84 %
2010	January 1, 2009	-	1,360,045	1,360,045	0	288,756	4.71
2011	January 1, 2009	-	1,360,045	1,360,045	0	284,278	4.78
2012	January 1, 2012	-	410,633	410,633	0	228,152	1.80
2013	January 1, 2012	-	410,633	410,633	0	174,476	2.35

See Note 14 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

OTTUMWA WATER WORKS
DETAIL SCHEDULE OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2013

OPERATING REVENUE:

Sale of water	\$ 5,802,398
Sale of electricity	277,846
Miscellaneous income:	
Fire protection - Private	171,695
Customer forfeitures	28,211
Service connections	45,065
Service charge - Sewer billing	77,046
Service charge - Refuse billing	40,410
Miscellaneous	176,172
TOTAL OPERATING REVENUE	<u>6,618,843</u>

OPERATING EXPENSES:

Production:	
Supervision	111,767
Maintenance labor	62,765
Operations labor	169,754
Overtime/PTO/Etc.	116,698
Chemicals/carbon	383,654
Laboratory supplies	18,062
Employee benefits/taxes	213,077
Supplies/maintenance	528,196
	<u>1,603,973</u>
Distribution:	
Supervision	65,053
Maintenance labor	157,975
Meter labor	86,489
Overtime/PTO/Etc.	152,789
Maintenance materials	125,275
Contract street repairs	491,412
Employee benefits/taxes	301,885
Supplies/maintenance	481,940
	<u>1,862,818</u>
Hydro:	
Operations labor	80,235
Overtime/PTO/Etc.	25,786
Maintenance supplies	524
Headwater Fee	10,264
Employee benefits/taxes	56,198
Supplies/maintenance	31,773
	<u>204,780</u>
Financial services:	
Financial services supervision	56,922
Financial services labor	107,982
Overtime/PTO/Etc.	20,368
Office supplies	11,265
Postage expense	57,274
Noncollectible accounts	16,500
Employee benefits/taxes	71,221
Supplies/maintenance	58,930
	<u>400,462</u>

OTTUMWA WATER WORKS

DETAIL SCHEDULE OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2013

OPERATING EXPENSES: (continued)

Administration:

Executive salaries	87,106
Board salaries	1,850
Overtime/PTO/Etc.	16,469
Employee benefits/taxes	10,754
Training expense	3,022
Subscriptions	4,495
Legal services	11,553
Business expense	4,968
	<u>140,217</u>

General plant:

Employee's miscellaneous expense	21,204
General property expense	19,492
Safety program	100
Liability insurance	78,213
Workmen's compensation insurance	177
Group health insurance	77,673
Health insurance - Retirees	133,594
Supplies/Maintenance	43,302
Contract labor	17,888
Fuel and power	7,239
General services/contingency	38,116
Gas and oil	40,063
	<u>477,061</u>

Depreciation and amortization

1,183,033

TOTAL OPERATING EXPENSES

5,872,344

OPERATING INCOME

746,499

NONOPERATING REVENUE (EXPENSE):

Interest income	47,203
Interest expense	<u>(291,783)</u>
Total nonoperating revenue (expense)	<u>(244,580)</u>

CHANGE IN NET POSITION

\$ 501,919

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Ottumwa Water Works
Ottumwa, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of Ottumwa Water Works, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise Ottumwa Water Works' basic financial statements and have issued our report thereon dated August 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ottumwa Water Works' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ottumwa Water Works' internal control. Accordingly, we do not express an opinion on the effectiveness of the Ottumwa Water Works' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings as item I-A-13 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ottumwa Water Works' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as item II-F-13.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa
August 26, 2014

OTTUMWA WATER WORKS
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2013

Part I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

- I-A-13 Payroll Withholdings – During our testing of payroll files, it was noted that certain employee files were missing approval for certain deductions.

Recommendation – Employee personnel files should include written authorization for all non-statutory payroll deductions prior to these deductions being withheld from employee paychecks.

Response – We will do from now on.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting

- II-A-13 Certified Budget – Disbursements during the year ended December 31, 2013 did not exceed the amounts budgeted.

- II-B-13 Questionable Expenses – No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

- II-C-13 Travel Expense – No expenditures of money for travel expenses of spouses of Utility officials or employees were noted.

- II-D-13 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.

- II-E-13 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-13 Trustee Minutes – No transactions were found that we believe should have been approved in the minutes but were not. However, in accordance with the Code of Iowa, minutes are required to be published within one week following approval. The minutes for the meetings held March 12, 2013 and June 11, 2013 were not published.

Recommendation – The Board of Trustees should ensure all minutes are published to comply with the Code of Iowa.

Response – We will do so from now on.

Conclusion – Response accepted.

- II-G-13 Revenue Bonds – No instances of non-compliance with the revenue bond provisions were noted.

- II-H-13 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa were noted.